

Town of North Andover

Fiscal Year 2017 Budget Policy Statement



Board of Selectmen

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Town Manager

Andrew W. Maylor

October 19, 2015

Overview

The North Andover Charter (section 9-2-3) requires that the Board of Selectmen, after consultation with the Town Manager, issue a Budget Policy Statement relating to the upcoming fiscal year's budget (FY17 - July 1, 2016 to June 30, 2017). The Charter states that the policy statement shall establish the outer limits of possible budget growth for the town. The financial resources identified in this report are preliminary and will be revised, as necessary during the budget process.

Budget Policy Objectives and Strategic Goals

The financial constraints which existed in the first decade of this century have been replaced with an environment of relative fiscal stability, especially during the past three years. The FY17 spending plan will continue to focus on maintaining the Town's commitment to the "Fundamentals" a set of policy objectives that seek to promote a single, pro-North Andover agenda predicated on sustainability and stewardship. Contained within those Fundamentals are priorities established by the Board of Selectmen as part of their strategic planning process. The primary focus of the Fundamentals, assuming these priorities, includes:

- Financial - steadily improving the Town's financial condition through balancing budgets and advancing responsible reserve policies that strengthen local government's flexibility to act on pressing needs while protecting against the impacts of economic downturns that could threaten municipal services delivery and the viability of the Town government. ***The Board will continue to implement the financial reserve policies adopted in April 2015 to achieve acceptable reserve standards, along with increasing pay-as-you go capital funding, reducing the OPEB liability and maintaining a structurally balanced budget. The Town will seek to expand regional strategic partnerships with surrounding communities.***
- Economic Development – further supporting the Town through an aggressive agenda that seeks to attract new revenue in a variety of forms, including property tax, auto excise tax and building inspection fees. ***The Town will continue the implementation phase of the "vision" created for the Route 125 corridor detailed in the UMass Center for Economic Development report. Specifically, the Town will establish a curb cut policy and request that state officials include in the state budget funding for road enhancements for the Route 125 corridor. Additionally, the Town will aggressively market North Andover to the larger business community and establish relationships with current business owners to help prevent them from leaving North Andover.***
- Neighborhood Enhancement – continually producing improvements in each and every neighborhood of the Town by updating infrastructure through a functioning Capital Improvement Program, cleaning streets, enhancing open space, and tackling and resolving long-standing problems. ***The Town will continue with the five (5) year roadway improvement plan and provide an updated plan on the Town website. The Town will develop a plan to improve the streetscape in the downtown Main Street area, including exploring the option of installing underground streetlights and providing***

assistance to property owners for storefront improvements in that area. The Board has directed the Town Manager to focus on developing a preliminary plan for a Community Field Complex located at the Middle/Atkinson Schools. The next phase of the Playground Master Plan, Kittredge School Playground improvements, will also commence in FY17. The Board will review certain parcels in town that have a potential for large scale development to determine if the Town may be interested in pursuing any parcels that, if developed, may have a detrimental impact on delivery of town services. The Town will seek assistance from the state to install noise barriers along Route 495 and to limit the amount of temporary signs on public property.

- Community Development – fully encouraging partnerships between Town government and its stakeholders in North Andover’s success, including other governmental entities, the business community, non-profit leaders, neighborhood groups and individual residents, in order to support a broad array of programs and initiatives that may or may not be Town-run, but are all supportive of the Town’s desire to promote the advancement of its families and individual residents over a broad range of human needs, including, but not limited to, affordable housing, health care, education and job training. *In FY17, the Board will continue to improve neighborhoods while at the same time supporting funding for affordable housing to residents, by working with non-profit organizations, the Affordable Housing Trust and the Community Preservation Committee to rehabilitate distressed properties in Town. Additionally, the Board supports the continued ownership by the Town of the Stevens Estate and the surrounding open space, but will explore the cost/benefit of the Estate’s ancillary structures and grounds.*
- Public Safety – constantly improving upon the protection of the public and its property by initiating policy and providing the necessary resources, be it training, staffing or equipment, to effectively carry-out the missions of the Town’s law enforcement, fire and emergency management agencies. *The Board will work with public safety departments and other relevant Town departments, including the school department, and collaborate with other communities, to develop a plan to address substance abuse and drug trafficking problems affecting our area.*
- Governmental Philosophy – becoming a more open, responsive and responsible municipal government that not only hears the needs of its people, but develops and initiates efforts designed to address those needs in an honest, fair, equitable, accountable and cost-effective manner, while never sacrificing good government for the benefit of those whose goals run counter to that of a pro-North Andover agenda. *In FY17, the Town will remain committed to the implementation of the Facilities Master Plan adopted by the Town Meeting of 2012, reach out to departments to get feedback regarding priorities and continue to make improvements to the Town’s website. The Town will also continue to use social media and other electronic communication systems to inform and engage the public. On an annual basis, the Board will review and update their policies and procedures and will meet with appointed Boards and Committees for updates and feedback.*

Town of North Andover
Financial Reserve Policies

Adopted by the North Andover Board of Selectmen on February 10, 2014

Adopted by the North Andover Finance Committee on February 5, 2014

Updated and adopted by both the Board of Selectmen in April 2015 and the Finance Committee in May 2015

Fund balance and reserve policies should be established to protect the Town from unforeseen increases in expenditures, reduction in revenues, or a combination of both, or any other extraordinary events. Fund balance and reserve policies also serve to provide an additional source of funding for capital construction and replacement projects. Reserves should normally average 5% to 15% of the Town's General Fund budget.

There are two classes of reserves: 1) restricted reserves which are to be utilized only for the purpose designated, 2) unrestricted reserves which can be utilized at the discretion of the authorized personnel.

Reserve policies cover; Operating Reserves, which provide for unanticipated expenditures or unexpected revenue losses during the year; Capital Reserves, which provide for normal replacement of existing capital plan and the financing of capital improvements; OPEB Reserves provide for funding of other post-employment benefit liability; Cash Flow Reserves, which provide sufficient cash flow for daily financial needs; and Contingency Reserves provide for unanticipated expenditures.

The Town shall maintain the following general, special and strategic reserve funds:

- **Operating Reserves**—The maintenance of adequate operating reserves is essential to the financial strength and flexibility of the Town as a whole. Adequate operating reserves are integral parts of the financial structure of the Town and help make it possible for the Town to issue debt, among many other functions.
1. **Undesignated Fund Balance**- Operating fund balance shall be maintained at sufficient levels to absorb unpredictable revenue shortfalls and to insure desired cash flow levels. With regard to the General fund, cash balances available at year end shall, in combination with the new revenues, be sufficient to preclude any requirement for short-term debt to sustain Town operations. Should this fund balance fall below 5% of the "Fund Balance Floor", defined as General Fund revenue less state aid and appropriations to reserve accounts, a plan for expenditure reductions and/or revenue increases shall be submitted to the Board of Selectmen during the next budget cycle.
 2. **Free Cash** – This reserve provides for the temporary financing of unforeseen opportunities or needs of an emergency nature including increases in service delivery cost. This is the portion of undesignated fund balance certified by the Department of Revenue, Division of Local Services, as "Free Cash". Monies held in this reserve may be appropriated during the current budget year and may also be used as a source of revenue for the ensuing budget year. Of all general fund reserves this is the most

flexible.

- **Stabilization Fund** – a Stabilization Fund shall be maintained, under the provisions of MGL Chapter 40, Section 5B.
 1. The target funding level (TFL) for the Fund shall be an amount equivalent to 5% of the Town's prior year's Total General Fund Revenue less appropriations to reserve accounts. A Stabilization Fund Floor shall be established at 1.5% of the Town's prior year's Total General Fund Revenue less appropriations to reserve accounts. The Fund shall be funded only with Free Cash or one-time revenues.
 2. The Stabilization Fund may only be used under the following circumstances:
 - a. To support the operating budget when General Fund Net Revenue, as defined as Total Revenue less debt exclusions and state school building reimbursements, increases less than 2.5% from the prior fiscal year.
 - b. To fund capital projects, on a pay-as-you-go basis, when available Free Cash drops below \$2 million in any year and only if the Capital Stabilization Fund has reached its floor as defined in the Capital Stabilization Fund section of this policy.
 3. The level of use of the Stabilization Fund shall be limited to the following:
 - a. When supporting the operating budget under "2a" above, the amount drawn down from the fund shall be equal to the amount necessary to bring the year-over-year increase in the Town's prior year Net Revenue to 2.5%, or \$1 million, whichever is less. The draw down shall not occur in more than three consecutive fiscal years and the maximum shall not exceed \$2.5 million for the three year period.
 - b. When funding capital projects, on a pay-as-you-go basis under "2b" above, no more than \$1 million may be drawn down from the fund in any fiscal year. The draw down shall not occur in more than three consecutive fiscal years and the maximum shall not exceed \$2.5 million for the three year period.
 4. In order to replenish the Stabilization Fund if used, in the year immediately following any draw down, the Town shall formulate a plan to restore the Fund to the previously identified TFL. Said funding shall come from Free Cash.
- **Capital Stabilization Fund** a Stabilization Fund shall be maintained, under the provisions of MGL Chapter 40, Section 5B.
 1. The TFL for the Fund shall be an amount equivalent to 1% of the Town's prior year Total General Fund Revenues. A Capital Stabilization Fund Floor shall be established at \$25,000. The Fund shall be funded only with Free Cash or one-time revenues.
 2. The Capital Stabilization Fund may only be used to fund projects which have been approved as part of the Town's Capital Improvement Plan (CIP).

- **Other Post-Retirement Benefits (OPEB)** – – a Stabilization Fund established per the provisions of MGL Chapter 40, Section 5B, and a Trust Fund established per the provisions of MGL Chapter 32B, Section 20 shall be utilized to reserve funds to offset the Town's OPEB liability.
 1. The aggregate target funding level (TFL) for these Funds shall be an amount equivalent to 5% of the OPEB unfunded actuarial liability.
 - a. An amount equal to no less than 1% of the OPEB unfunded actuarial liability shall be transferred to the Stabilization Fund from the Town's Health Insurance Trust Fund at the time that the Stabilization Fund is established. Annually, an amount equal to a minimum of 2.5% of the aggregate Fund balance of these Funds shall be appropriated to either Fund from the operating budget or Free Cash or both.
 - b. From time to time the Town shall analyze the balance in the Health Insurance Trust Fund to determine if additional funds can be transferred into the OPEB Funds.
 2. In order to replenish the Funds if used, in the year immediately following any draw down, the Town shall formulate a plan to restore the Funds to the previously identified TFL. Said funding shall come from Free Cash.
- **Overlay Reserve** – established per the requirements of MGL Chapter 59, Section 25, the Overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Board of Selectmen shall, at the conclusion of each fiscal year, require the Board of Assessors to submit an update of the Overlay reserve for each fiscal year, including, but not limited to, the current balances, amounts of potential abatements, and any transfers between accounts. If the balance of any fiscal year overlay exceeds the amount of potential abatements, the Board of Selectmen may request the Board of Assessors to declare those balances surplus, for use in the Town's Capital Improvement Plan (CIP) or for any other one-time expense.
- **Enterprise Fund Retained Earnings Reserve** – to provide rate stability in the Water and Sewer Enterprise Funds, the funds will maintain retained earnings equivalent to a minimum of three months of appropriated expenses. Retained earnings in excess of four months will be appropriated to offset user fees directly or indirectly through capital project pay-as-you-go funding of enterprise fund projects.
- **Special Education Stabilization Fund** – to provide stability in the delivery of public education that could otherwise be adversely impacted by costs associated with special education which were unforeseen at the time the annual fiscal appropriation was adopted by an Annual Town Meeting, the Town will establish a Stabilization Fund per the provisions of MGL Chapter 40, Section 5B. For the purpose of this policy unforeseen costs are those for which neither experience nor reasonable judgment or planning could have anticipated.

1. The target funding ceiling (TFC) for this Fund shall be \$750,000 and the target funding floor (TFF) shall be \$100,000.
2. The school department can request a transfer from this Fund in an amount not to exceed \$250,000 in any one fiscal year if the following conditions are met:
 - a. Eligible costs are limited to out of district placements and transportation costs associated with out of district placements.
 - b. The costs were unforeseen prior to the adoption by Town Meeting of the school department budget in the fiscal year the funds are being requested.
 - c. The School Committee, Finance Committee, and Board of Selectmen each by majority vote affirm that the costs were unforeseen and paying said costs from the appropriated school department budget would adversely impact the delivery of education in North Andover.
3. In order to ensure that the Fund is not depleted, and that proper financial planning is undertaken to reduce the likelihood of future unforeseen costs, the aggregate amount of transfers from the Fund in any two consecutive fiscal years is \$400,000. The Town shall formulate a plan to restore the Fund to the identified TFC when the balance of the Fund drops below the TFF. Said funding shall come from Free Cash or other Reserves.

Note: Transfers from this Fund will require action at a Special Town Meeting.

Reserve Fund Balances

Undesignated Fund Balance/Free Cash

Fund balance as of June 30, 2014	\$ 6,897,118
FY15 revenues and other financing sources	\$ 86,946,978
FY15 expenditures and other financing uses	<u>\$(84,652,603)</u>

Fund Balance as of June 30, 2015	<u>\$ 9,191,493</u>
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Certified Free Cash as of June 30, 2015	<u>\$ 7,388,082</u>
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Town Stabilization Fund

Fund balance as of June 30, 2015	\$ 4,208,044
FY16 contribution	<u>\$ 64,412</u>

Est. FY16 Fund Balance as of June 30, 2016	<u>\$ 4,272,456</u>
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Town Capital Stabilization Fund

Fund balance as of June 30, 2015	\$ 455,124
FY16 contribution	<u>\$ 213,000</u>
Est. FY16 Fund Balance as of June 30, 2016	<u>\$ 668,124</u>

Other Post-Retirement Benefits (OPEB) Liability

Est. OPEB Liability as of June 30, 2013	\$100,068,844
Est. OPEB Liability as of June 30, 2014	\$ 86,605,373

Other Post-Retirement Benefits (OPEB) Stabilization Fund

Fund balance as of June 30, 2015	\$ 1,007,937
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OPEB Trust Fund

Fund Balance as of July 1, 2015	\$ 500,000
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Special Education Stabilization Fund

Fund Balance as of July 1, 2015	\$ 750,000
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Enterprise Fund Retained Earnings Reserve

Water Fund - as of June 30, 2015	6.29 months*
Sewer Fund – as of June 30, 2015	6.82 months*

*assuming FY16 Budget Expenditures

Development of the Fiscal Year 2017 Budget

The budget development process is structured to integrate long range planning with the specific short term decisions that need to be made in the upcoming fiscal year's budget. The Town has adopted the Government Finance Officers Association (GFOA) budget format and other tools to enhance the thoughtfulness and depth of the information gathering process that ultimately leads to an approved comprehensive financial plan. The framework of the budget development process includes:

Strategic Budget - Based on Long-Term Policies and Plans - The budget process began in October with a strategic planning session involving the Town Manager and Board of Selectmen. The Town Manager's Five Year Financial Forecast to be presented in November, adopted Financial Reserve Policies, the Five Year Capital Improvement Plan, and the continued

implementation of the Facilities Master Plan will provide the linkage to the strategic context for the budget and reinforces the budget's role of implementing priorities within these plans.

Financial Context for the Budget – This review of available funding sources is a crucial first step in the capital planning and budget processes of the Town. This policy statement will provide the initial focus for budgeting development by setting broad expectations for the upcoming budget cycle and giving general direction to budget planners.

Using the consensus State revenue estimate developed in early 2015 as a barometer, the economic scan for FY17 indicates that growth in the 4% - 6% range is realistic (4.8% for FY16). However, projecting how state economic growth translates into additional state aid or local receipts such as motor vehicle excise tax can be a tricky business. Continuing our focus on prudent financial management, which we began four fiscal years ago, we will assume very conservative revenue projections including level funded state aid and a five year rolling average for revenue categories most prone to fluctuation. It should be noted that this approach has already resulted in a significant growth in reserve balances since FY12, increased financial flexibility and positive change in outlook from Standard and Poor's. We are continuing to see a revived interest in local economic development projects shelved during the Great Recession of 2008-2009, and some of the larger projects have begun to materialize driving increased building and other inspectional service fees. However, there is not enough empirical data to assume that these positive strides represent a trend in this area or that they will permanently drive other revenue sources such as New Growth or Meals Tax.

Internal and external inflationary pressure remains modest and the result is a controllable increase in expenditures. However, employee related costs still remain the most critical component of the town's budget even after the transfer to the Group Insurance Commission (GIC) which saved millions in health insurance costs for both the town and employees. As an example, the town's retirement appropriation is expected to increase by more than 8% annually during the next decade and currently represents nearly 5% of the town's General Fund expenditures. The focus is, and will remain, on creating a sustainable service delivery model into the future by researching and implementing creative ways to control spending through the use of technology and developing strategic partnerships.

Financial Plan General Fund

Overview

General Fund Budget Summary

A key component of the budget development process is the identification of revenue assumptions and projections to determine the range of choices the Town Manager can make in allocating resources. Because of the critical nature of this information the Town Meeting voted to establish in May 2004 the Revenue/ Fixed Costs Review Committee whose main purpose is to advise the Town Manager and other Town officials on projected revenues, other financial sources, and

fixed costs to facilitate the annual budget development process. The committee shall meet within thirty days, but no later than December 1st, of the issuance of the Board of Selectmen's Budget Policy Statement, and shall report to the Town Manager with their initial revenue projections within 45 days of their first meeting. The committee may continue to meet after the issuance of the report for the purpose of providing continued advice. For the Fiscal 2017 Budget cycle the committee will hold its initial meeting the week of October 19, 2015 and will issue its report to the Town Manager by December 15, 2015.

The Town does not have the statutory ability to change rates and formulas for many of its revenue sources. The rates and/or formulas for property tax and certain fines, for example, are set by the State. The Town may set user fees, permits and licenses. In 1980, the voters approved a statewide property tax initiative, Proposition 2½. Prop. 2½ established, among several restrictions, a "2 ½ percent cap" on property tax increases in all local taxing districts in the State.

Town revenue is divided into six basic categories recommended by the National Committee on Governmental Accounting. The categories are taxes, charges for services, licenses and permits, fines and forfeits, intergovernmental revenue, and miscellaneous revenue. The following is a discussion of the Town's projections for some of major categories in FY17.

TAXES

Real and Personal Property Tax

The primary sources of revenue for municipalities in the Commonwealth are the real property tax and personal property tax. For purposes of taxation, real property includes land and buildings and improvements erected or affixed to land and personal property consists of stock, inventory, furniture, fixtures and machinery. The Town's Board of Assessors determines the value of all taxable land, which is revalued at fair market value every three years and updated every year. FY16 is the next scheduled revaluation year for the Town. The Town's Board of Assessors is also responsible for determining the value of personal property through an annual review process.

Major Changes:

There are three major factors that influence the amount of revenue generated by the real and personal property tax:

1. Automatic 2.5% increase – Each year, a community's levy limit automatically increases by 2.5% over the previous year's levy limit.
2. New Growth – A community is able to increase its tax levy limit each year to reflect new growth in the tax base. Assessors are required to submit information on growth in the tax base for approval by the Department of Revenue as part of the tax rate setting process. In FY17, based on current trends new growth is estimated to be \$600,000.

3. Overrides/Exclusions – A community can permanently increase its levy limit by successfully voting an override. Debt and Capital exclusions are temporary increases in a communities levy limit for the life of the project or debt service. Only a debt or capital exclusion can cause the tax levy to exceed the levy ceiling. In FY17 the debt service from exclusions is estimated to be \$1,922,516. The levy ceiling of a Town is 2.5% of the total valuation of the community. The ceiling for the Town in FY15 was \$107,356,902. As the following chart shows, the Town is substantially under its levy ceiling.

TAX LEVY BREAKDOWN

	Actual FY 2013	Actual FY 2014	Actual FY 2015	Budget FY 2016	Projected FY 2017
Tax Limit	57,613,671	59,689,214	61,955,069	64,297,287	66,504,719
Add 2.5%	1,440,342	1,492,230	1,548,877	1,607,432	1,662,618
Add New Growth	635,201	773,625	793,341	600,000	600,000
Add Override	-	-	-	-	-
Levy Limit	59,689,214	61,955,069	64,297,287	66,504,719	68,767,337
+ Debt Exclusion(s)	1,840,566	1,810,971	1,774,775	1,936,388	1,922,516
- SBA Reimb. - EXCLUDED DEBT	-	-	-	-	-
- Debt Exclusion Adjustment	-	-	-	-	-
- SBA interest reimb - High School	(68,926)	(68,926)	(68,926)	(68,926)	(68,926)
- Bond Premium	-	-	-	-	-
Sub total Excluded Debt	1,771,640	1,742,044	1,705,849	1,867,461	1,853,589
Max Levy	61,460,854	63,697,113	66,003,136	68,372,180	70,620,926
Actual Levy	61,434,579	63,441,828	65,031,997		
Excess Levy	26,275	255,285	971,139		
Levy Increase \$	810,329	2,236,260	2,306,022	2,369,045	2,248,746
Levy Increase %	1.34%	3.64%	3.62%	3.59%	3.29%
Levy Limit Increase \$	2,075,543	2,265,855	2,342,218	2,207,432	2,262,618
Levy Limit Increase %	3.60%	3.80%	3.78%	3.43%	3.40%
Net Debt Exclusion	1,771,640	1,742,044	1,705,849	1,867,461	1,853,589

Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	% Change FY16- FY17
Tax Levy (per RECAP)	\$60,650,525	\$60,795,372	\$63,441,828	\$64,618,660	\$68,376,590	\$70,625,447 *	3.3%

*Estimated



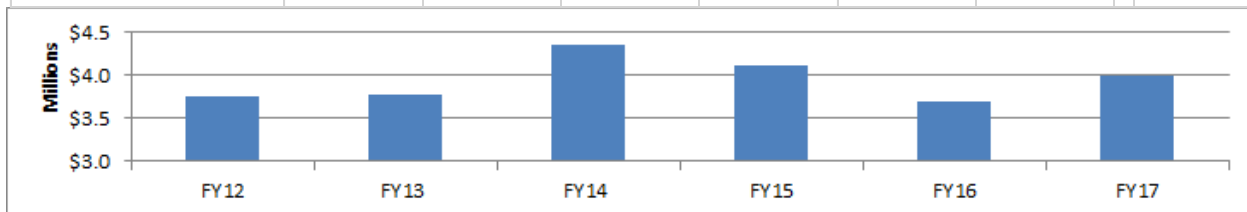
Motor Vehicle Excise Tax Receipts – State law (Proposition 2 ½) sets the motor vehicle excise rate at \$25 per \$1000 valuation. The Town collects these monies based on data provided by the Massachusetts Registry of Motor Vehicles. The Registry, using a statutory formula based on a manufacturer's list price and year of manufacture, determines valuations. The Town in which a vehicle is principally garaged at the time of registration collects the motor vehicle excise tax.

In January 1992, the Registry of Motor Vehicles implemented a new computer tracking system that forces auto owners to pay their excise taxes. Those who do not pay will not be allowed to renew registrations and licenses. Cities and towns must notify the Registry of delinquent taxpayers. Although the FY14 actual amount of excise taxes collected were well above the previous five year average, there was a decline in FY15 which led us to believe this may be an anomaly and therefore, we conservatively budgeted for FY16. A further review based on the most recent five year actual collection average we are recommending a budgetary increase of \$300k in FY17.

Major Changes:

This revenue source has remained relatively level during the past five years with the exception of FY14 which is an indication that residents are retaining vehicles longer than in the previous decade. Due to an apparent change in buying habits, the national economic situation and conservative budgeting practices, we are recommending an increase in FY17, but not to the actual levels of FY15 and FY16.

Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	FY16- FY17
Motor Vehicle Excise	\$ 3,750,578	\$ 3,779,369	\$ 4,362,823	\$ 4,107,364	\$ 3,700,000	\$ 4,000,000 *	8.1%
*Estimated							



Penalties and Delinquent Interest – This category includes delinquent interest on all taxes and tax title accounts. It also contains demand fees on real and personal property taxes as well as demands and warrants on late motor vehicle excise taxes.

Delinquent Interest and Penalty Charges – The Town receives interest and charges on overdue taxes. Interest rates for overdue real and personal property taxes are 14%, and for tax title accounts, 16%. The interest rate for delinquent excise tax accounts is 12% from the due date. State law dictates the interest rate for taxes, while local bylaw sets water/sewer charges.

If real and personal property taxes are not paid by May 1, in the year of the tax, a demand for payment notice (\$30) is sent to all delinquent taxpayers. Delinquent motor vehicle taxpayers are sent a demand (\$30), a warrant (\$5), and two separate notices from a deputy tax collector (\$9 and \$14). The deputy collector's earnings come solely from delinquent penalty charges in lieu of a

salary. Demands are (\$30) and warrants are not issued for delinquent water/sewer service accounts, which are subject to a lien on the real estate tax bill. Once a delinquent real estate account goes into a process of tax title, there are other fees added to the property tax bills. These charges include the cost of recording the redemption (\$75/\$30) and demand notices.

Host Community Fees – Through negotiated agreements the Town receives annual payments from Wheelabrator as the “Host” community of their waste to energy facility located on Holt Road. The revenue received from these two agreements exceeds \$1.8 million annually.

In Lieu of Tax Payments – Many communities, North Andover included, are not able to put all property within its borders to productive, tax generating uses. Federal, state and municipal facilities, hospitals, churches and colleges are examples of uses that are typically exempt from local property tax payments. The Town currently negotiates with one entity (the North Andover Housing Authority) for a PILOT payment of approximately \$30,000 per year.

Municipal Lien Certificates – The Town Collector issues a certificate indicating any amount owed on a particular parcel of property to an individual requesting the information within five days of the request. The cost per certificate is \$35 per parcel.

Other Excise – The Town receives approximately \$20,000 annually from the State for Jet Fuel Tax associated with the Lawrence Municipal Airport (LMA). This amount has declined recently when Converse relocated their headquarters from North Andover to Boston and there was an associated decline in the number of corporate jets landing at LMA. The Town accepted the provision of State statute which allows a local option meals tax in the amount of .75%. The budget estimate in this category for FY17 is \$470k which is level funded from the FY16 budget.

LICENSES AND PERMITS/SUMMARY

Licenses – License revenue arises from the Town’s regulations of certain activities (e.g. selling alcoholic beverages). A person or organization pays a license fee to engage in the activity for a specific period. The primary licensing agency in the Town is the Board of Selectmen. All fees are set by one of the three methods: State law, Town By-Law or Licensing Body.

Permits – Permits are also required when a person or business wants to perform a municipally regulated activity (e.g., building, electrical, or plumbing services). The bulk of the permit revenue is brought in through building permits, collected by the Building Department. All construction and development on the Town must be issued a building permit based on the cost of construction. The Board of Selectmen last adopted a revised building inspection permit fee schedule in Fiscal 2007.

The most common licenses and permits are briefly described on the following pages. A complex fee schedule is available from the Board of Selectmen or the Building Department.

Liquor Licenses – Under Chapter 138 of the General Laws of Massachusetts, the Town is empowered to grant licenses regulating the sale of alcoholic beverages. License fees vary

depending upon the type of establishment, closing hours, number of days open, and whether the license is for all alcohol or beer and wine. All licenses issued by the Board of Selectmen, with the exception of special and seasonal liquor licenses, have a maximum fee set by the State statute.

The Town may issue liquor licenses within the limits of the State quota system, which is based on population. Special licenses carry a fee and do not fall under the State cap. Total revenue for special licenses depends on the number and length of events that receive licenses.

Common Victualer – The common victualer license allows food to be made and sold on the premises.

Entertainment – Entertainment licenses are issued for live performances, movie theaters, automatic amusement machines, billiard tables, bowling alleys and several other forms of entertainment.

Building Permits – Building permits are issued to qualified individuals and companies to do repairs, alterations, new construction or demolitions in the Town. The cost of permits is based on the estimated cost of the project or by a set fee.

Electrical Permits – Electrical permits are issued to licensed electricians to perform specific electrical work. The cost of the permit is dependent on the number of switches, lights, alarms and other electrical components included in the job.

Plumbing Permits – Plumbing permits are issued to licensed plumbers to install and repair piping for a specific job. The fee is based on the amount and type of work being done.

Weights & Measurers – Weights and Measures permits are issued for scales, gas pumps and other measuring devices.

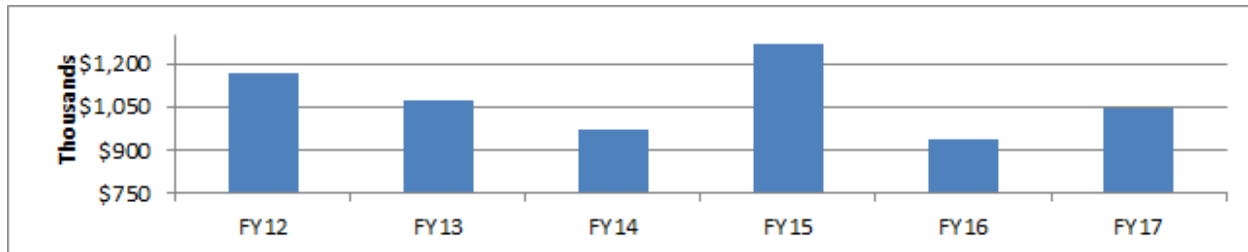
Town Clerk Licenses & Permits – The Town Clerk issues licenses and permits primarily relating to marriages, births, deaths, business certificates, raffles, passports and dog registrations.

Other Departmental Permits – Other Departments issue various permits including fire permits, fire alarm box permits, firearms, fishing and boating permits.

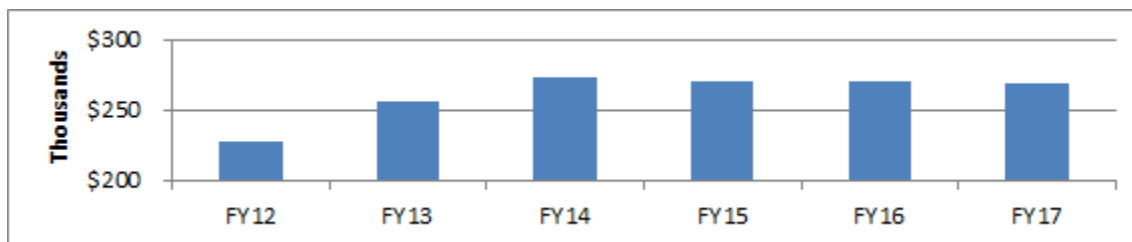
Major Changes:

The Board of Selectmen adjusted Building Inspection fees based upon an analysis of similar fees in surrounding communities in FY07. At the end of FY15 and the beginning of FY16 the Town collected a substantial amount of fees associated with development. These fees were related to several large construction projects and are not indicative of an upward trend in overall construction activity. Therefore, in FY17 we are assuming a budget amount consistent with the five year average in this category.

							% Change
Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	FY16- FY17
Fees (Bldg, Plumb, Elec., etc.)	\$ 1,163,413	\$ 1,073,824	\$ 969,597	\$ 1,270,462	\$ 939,650	\$ 1,041,800	* 10.87%
*Estimated							



							% Change
Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	FY16- FY17
Licenses and Permits	\$ 227,644	\$ 256,074	\$ 272,553	\$ 269,881	\$ 270,200	\$ 268,100	* -0.8%
*Estimated							



FINES AND FOREITS

Parking Fines – The collection of outstanding parking fines continues to be an important source of revenue to the Town. The timely collection of fines has been aided by automation, and by State law that prohibits violators from renewing their driver's license and registrations until all outstanding tickets are paid in full.

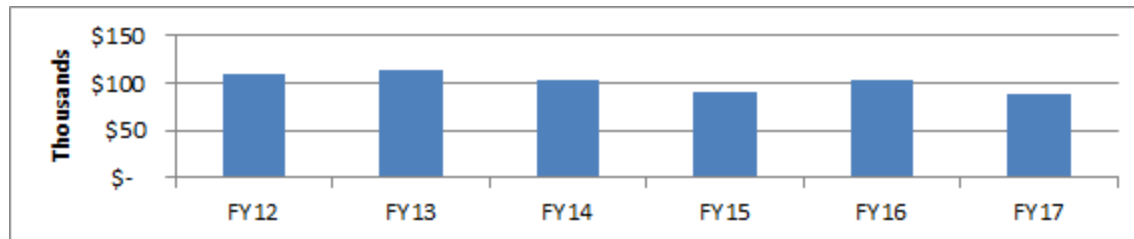
Moving Violations - Non-parking offenses result in moving violation fines. Among the violations included in this category are speeding, passing in the wrong lane, and failing to stop at the traffic signal. These fines, collected by the District Court, are distributed to the Town on a monthly basis.

Major Changes:

The Municipal Relief Package passed by the Legislature in 2003 increased the amount of fines that may be collected for violations of any regulations, orders, ordinances or bylaws regulating parking of motor vehicles. Due to the implementation of wireless systems in many businesses

False Alarms fines which are included in this category have been on the decline and therefore the FY17 budget estimate reflects that.

Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	% Change FY16- FY17
Parking Fines/Moving Violations	\$ 108,998	\$ 112,917	\$ 103,615	\$ 90,414	\$ 102,900	\$ 90,500 *	-12.1%
*Estimated							



INTERGOVERNMENTAL REVENUE

Cherry Sheet - State Cherry Sheet revenue funds are primarily intergovernmental revenue. Cherry Sheet revenue consist of direct school aid, local aid and specific reimbursements and distributions such as aid to public libraries, veterans benefits and a number of school related items. For the FY15 budget process, the Town projected no increase of Cherry Sheet revenues based on assumptions offered by the Governor’s Budget. The largest increase in Cherry Sheet revenue in previous years was from Chapter 70 aid which increased 6.5% between FY13 and FY15. The FY16 projection for Cherry Sheet revenue is based on the FY15 adopted State budget. As has been the practice, the FY17 budget estimate is based on the FY16 actual from the adopted State budget.

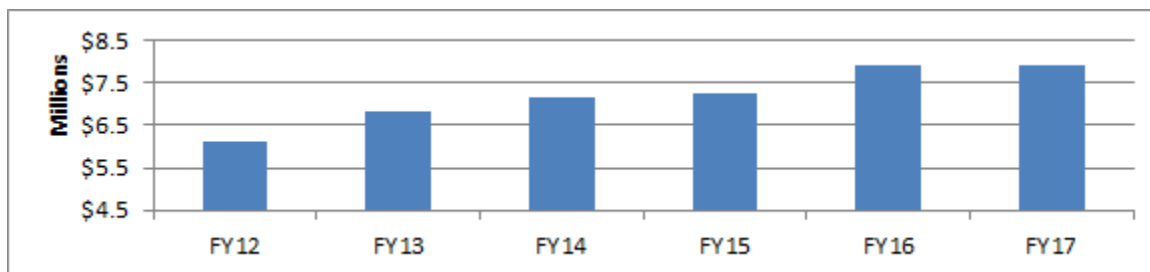
Every year the Commonwealth sends out to each municipality a “Cherry Sheet”, named for the pink colored paper on which it was originally printed. The Cherry sheet comes in two parts, one listing the State assessments to municipalities for MBTA, Retired Teachers Health Insurance, air pollution control districts and the other state programs; the other section listed the financial aid the Town will receive from the State for funding local programs. Each Cherry Sheet receipt is detailed on the following pages.

School Aid – Chapter 70 school aid is based on a complex formula that takes into account: (1) statewide average cost per pupil; (2) local district pupil counts, with weighing factors to reflect varying costs among programs such as special education or vocational education, and (3) municipal fiscal “ability to pay” for education, as measured by equalized valuation per capita as a percent of statewide average.

Major Changes:

There has been a long standing proposal to overhaul the foundation budget and develop a new method for measuring municipal ability-to-pay and for determining required local contribution and school aid amounts. To date, no action has been taken regarding this proposal.

							% Change
Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	FY16- FY17
Chapter 70	\$ 6,124,740	\$ 6,808,233	\$ 7,163,024	\$ 7,262,286	\$ 7,921,497	\$ 7,921,497 *	0.0%
*Estimated							

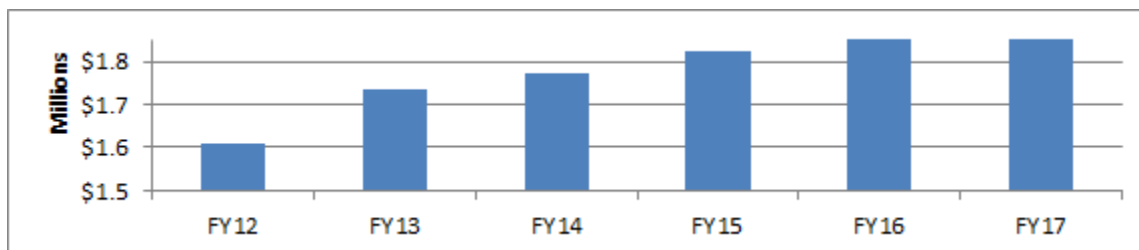


Local Aid – The major non-school state aid items are the Unrestricted Government Aid. These funds are unrestricted and can therefore be used by the municipality for any municipal purpose.

Major Changes:

Starting in FY10 the Governor combined these two aid accounts (Local Aid and Additional Assistance) into one category called Unrestricted General Government Aid.

							% Change
Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	FY16- FY17
Unrestricted General Gvt Aid	\$ 1,608,071	\$ 1,733,403	\$ 1,774,377	\$ 1,823,582	\$ 1,889,233	\$ 1,889,233 *	0.0%
*Estimated							



Veterans Benefits – Under Chapter 115, Section 6, municipalities receive a seventy-five percent State reimbursement on the total expenditures made on veterans' benefits.

Charter Tuition Reimbursement – To reimburse sending districts for a student tuition and the capital facilities tuition component they pay to Commonwealth charter schools. The capital facilities tuition component includes interest and principal payments, for the construction, renovation, purchase, acquisition, or improvement of school building and land.

Exemptions: Veterans, Blind Person, Surviving Spouse - To reimburse the municipality for property tax exemptions granted to qualifying veterans, blind person, surviving spouse and elder person.

State Owned Land – To reimburse the municipality for foregone tax revenue due to certain types of tax exempt state-owned land.

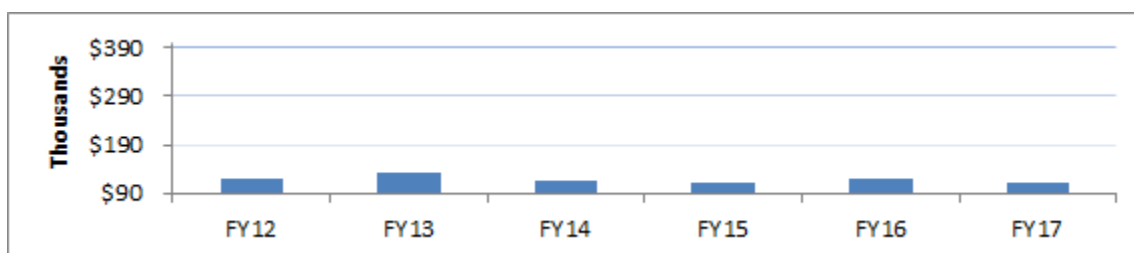
MISCELLANEOUS REVENUE

Interest on Investments – Under Chapter 44 Section 55B of the Massachusetts General Laws, all monies held in the name of the Town, which are not required to be kept liquid for purpose of distribution, shall be invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available. The investment decision must take into account, safety, liquidity, and yield. Investment of available town funds is the jurisdiction of the Town Treasurer by statute.

Major Changes:

Interest rates on investments declined through FY12 and have shown only a minimum increase since then. In fact, FY15 actual collections in this category declined from FY14 largely due to level rates of return and more efficient project management resulting in a lower average daily cash flow. The FY17 budget estimate is based on a continued assumption that there will be low rates of return.

Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	% Change FY16- FY17
Investment Income	\$ 118,449	\$ 130,403	\$ 115,400	\$ 110,398	\$ 121,000	\$ 110,000 *	-9.1%
*Estimated							



Ambulance Service – The Fire Department operates the Town’s municipal Basic Life Support (BLS) ambulance service utilizing fire fighter EMTs. Revenue from the service is generated based upon rates set by Medicare and the Board of Selectmen. Expenses associated with this service are appropriated in the Fire Department budget and the annual Capital Improvement Plan (CIP).

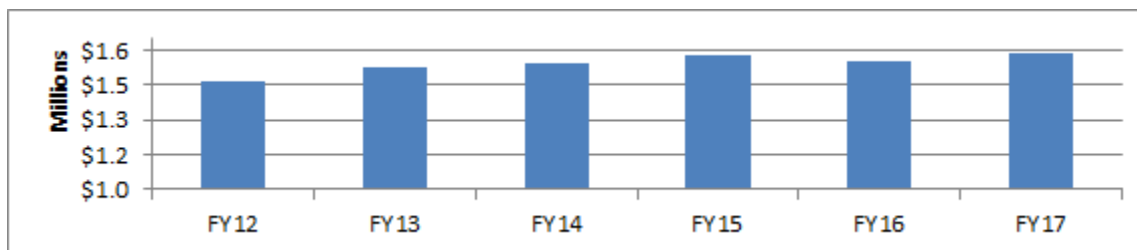
Major Changes:

In early FY 2017 the Boards of Selectmen increased the rates associated with this service for the first time in five years. The impact of this rate increase is unknown, however the FY17 revenue assumption has been increased from FY16 by \$80k in anticipation of additional revenue from the new rates.

INTERGOVERNMENTAL / INTERFUND TRANSFERS

Water, Sewer, Stevens Estate, and GLSD Transfers - The Water, Sewer and Stevens Estate funds, financed by water and sewer usage charges and event fees from the Stevens Estate, provide reimbursement for direct and indirect costs associated with a variety of the Town services, including those offered by Technology, Accounting, Town Manager, Treasurer /Collector, Personnel, Town Counsel, and Town Clerk. Additionally, enterprise funds provide reimbursement for employee benefits and maintenance of the Water, Sewer and Stevens Estate accounting and billing systems along with property/casualty insurance and workers compensation policies. These transfers are calculated by applying a percentage of the time spent by the relevant cost center to the enterprise fund activity. The Greater Lawrence Sanitary District (GLSD) annually makes a PILOT payment which is transferred to the General Fund to offset public safety costs.

Year to Year Comparison	FY12	FY13	FY14	FY15	FY16	FY17	% Change
Interfund Transfers	\$ 1,463,962	\$ 1,526,297	\$ 1,543,374	\$ 1,576,648	\$ 1,551,391	\$ 1,588,365 *	FY16- FY17 2.4%
*Estimated							



Aggregate Impact

Preliminary total revenue estimate for FY17 is expected to increase by \$3,484,253, or 3.96%, from FY16 exclusive of one-time revenues. As mentioned frequently in the preceding narrative,

these estimates assume a prudence intended to ensure our fiscal stability. The challenge has always been striking a balance between using reasonable assumptions and being so conservative that the town foregoes service enhancements that improve the quality of life of our residents. I believe the information contained herein strikes that balance.

Expenditure Guidelines

Based upon these preliminary estimates the Town will have approximately \$91.4 million of available General Fund resources to fund the Fiscal Year 2017 operating budget. The Town continues to explore ways to become more efficient and effective and recent successful examples are the reduction in costs associated with purchasing the Town's streetlights, reducing our energy consumption through the ESCO project, migration to the Group Insurance Commission, implementing a resident service reporting and tracking system, and sharing more resources with the school department. The continued investment in our infrastructure through programs like the Facilities Master Plan, the playground improvement plan, and our street repaving plan will help reduce the adverse impact that deferred maintenance had on our budget in the past. As mentioned previously, employee related costs will continue to be a stressor regarding our operating budget especially in the areas of retirement and health insurance and we must work with our local legislative delegation to achieve meaningful relief. The town will continue to explore additional initiatives to improve the short and long term prospects of delivering a high quality, **sustainable**, level of services to residents and local businesses.

Conclusion

When considering the increases in certain fixed costs such as Debt Service and Retirement, which will be greater than the percentage increase in revenue (3.96%), my recommendation will be a **3.70%** increase in all departmental budgets for FY17. Although we are at a very preliminary stage in the budget development process, it is reasonable to expect that given this increase the town will be able to maintain its current service levels in Fiscal Year 2017.

It should be noted that these estimates have not yet been reviewed by the Revenue and Fixed Cost Review Committee and are subject to change based on their recommendations or other information which may become available during the budget vetting process.